UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1999

Commission file number 1-14201

Sempra Energy
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of incorporation or organization)

33-0732627
(I.R.S. Employer Identification No.)

101 Ash Street, San Diego, California 92101
(Address of principal executive offices)
(Zip Code)

(619) 696-2034
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Common stock outstanding on July 31, 1999: 240,342,064

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

SEMPRA ENERGY
STATEMENTS OF CONSOLIDATED INCOME (Unaudited)
(Dollars in millions, except per share amounts)

| | Three Months Ended June 30, 1999 | Three Months Ended June 30, 1998 |
|---|---|---|
| Revenues and Other Income: | | |
| Utility revenues: | | |
| Natural gas | $ 706 | $ 654 |
| Electric | 646 | 476 |
| Other operating revenues | 159 | 87 |
| Other income | 6 | 4 |
| Total | 1,517 | 1,221 |
| Expenses: | | |
| Cost of natural gas distributed | 275 | 189 |
| Purchased power - net | 88 | 62 |
| Electric fuel | 21 | 36 |
| Operating expenses | 485 | 523 |
| Depreciation and amortization | 467 | 276 |
| Franchise payments and other taxes | 41 | 47 |
| Preferred dividends of subsidiaries | 3 | 2 |

| | | |
|---|---|---|
| Total | 1,380 | 1,135 |
| Income Before Interest and Income Taxes | 137 | 86 |
| Interest | 54 | 48 |
| Income Before Income Taxes | 83 | 38 |
| Income Taxes | 1 | 7 |
| Net Income | $ 82 | $ 31 |
| Net Income Per Share of Common Stock (Basic) | $0.35 | $0.13 |
| Net Income Per Share of Common Stock (Diluted) | $0.35 | $0.13 |
| Common Dividends Declared Per Share | $0.39 | $0.46 |

See notes to Consolidated Financial Statements.

SEMPRA ENERGY
STATEMENTS OF CONSOLIDATED INCOME (Unaudited)
(Dollars in millions, except per share amounts)

| | Six Months Ended June 30, | |
|---|---|---|
| | 1999 | 1998 |
| Revenues and Other Income: | | |
| Utility revenues: | | |
| Natural gas | $1,404 | $1,415 |
| Electric | 1,006 | 973 |
| Other operating revenues | 270 | 164 |
| Other income | 28 | 19 |
| Total | 2,708 | 2,571 |
| Expenses: | | |
| Cost of natural gas distributed | 566 | 519 |
| Purchased power - net | 154 | 158 |
| Electric fuel | 57 | 67 |
| Operating expenses | 873 | 900 |
| Depreciation and amortization | 609 | 551 |
| Franchise payments and other taxes | 86 | 98 |
| Preferred dividends of subsidiaries | 6 | 6 |
| Total | 2,351 | 2,299 |
| Income Before Interest and Income Taxes | 357 | 272 |
| Interest | 112 | 103 |
| Income Before Income Taxes | 245 | 169 |
| Income Taxes | 64 | 51 |
| Net Income | $ 181 | $ 118 |
| Net Income Per Share of Common Stock (Basic) | $0.76 | $0.50 |
| Net Income Per Share of Common Stock (Diluted) | $0.76 | $0.50 |
| Common Dividends Declared Per Share | $0.78 | $0.78 |

See notes to Consolidated Financial Statements.

SEMPRA ENERGY
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

| | Balance at | |
|---|---|---|
| | June 30, 1999 (Unaudited) | December 31, 1998 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 656 | $ 424 |
| Accounts receivable - trade | 386 | 586 |
| Accounts and notes receivable - other | 129 | 159 |
| Deferred income taxes | 111 | 93 |
| Energy trading assets | 1,066 | 906 |
| Inventories | 68 | 151 |
| Other | 196 | 139 |
| Total current assets | 2,612 | 2,458 |
| Investments and other assets: | | |
| Regulatory assets | 695 | 1,056 |
| Nuclear-decommissioning trusts | 507 | 494 |
| Investments | 1,059 | 548 |
| Other assets | 559 | 459 |
| Total investments and other assets | 2,820 | 2,557 |
| Property, plant and equipment: | | |
| Property, plant and equipment | 10,795 | 11,235 |
| Less accumulated depreciation and amortization | (5,521) | (5,794) |
| Total property, plant and equipment - net | 5,274 | 5,441 |
| Total assets | $10,706 | $10,456 |

See notes to Consolidated Financial Statements.

SEMPRA ENERGY
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

| | Balance at | |
|---|---|---|
| | June 30, 1999 (Unaudited) | December 31, 1998 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term debt | $ -- | $ 43 |
| Accounts payable - trade | 647 | 702 |
| Energy trading liabilities | 858 | 805 |
| Dividends and interest payable | 164 | 168 |
| Regulatory balancing accounts - net | 506 | 120 |
| Long-term debt due within one year | 334 | 330 |
| Other | 239 | 298 |
| Total current liabilities | 2,748 | 2,466 |
| Long-term debt | 2,889 | 2,795 |
| Deferred credits and other liabilities: | | |
| Customer advances for construction | 74 | 72 |
| Post-retirement benefits other than pensions | 234 | 240 |
| Deferred income taxes | 540 | 634 |
| Deferred investment tax credits | 111 | 147 |
| Deferred credits and other liabilities | 997 | 985 |
| Total deferred credits and other liabilities | 1,956 | 2,078 |
| Preferred stock of subsidiaries | 204 | 204 |
| Commitments and contingent liabilities (Note 3) | | |
| Shareholders' Equity: | | |
| Common Stock | 1,885 | 1,883 |

| | | |
|---|---|---|
| Retained earnings | 1,069 | 1,075 |
| Deferred compensation relating to Employee Stock Ownership Plan | (45) | (45) |
| Total shareholders' equity | 2,909 | 2,913 |
| Total liabilities and shareholders' equity | $10,706 | $10,456 |

See notes to Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (Unaudited)
(Dollars in millions)

| | Six Months Ended June 30, 1999 | 1998 |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Net income | $ 181 | $ 118 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 609 | 551 |
| Portion of depreciation arising from sales of generating plants | (295) | -- |
| Application of balancing accounts to stranded costs | (62) | (86) |
| Deferred income taxes | (83) | (47) |
| Non-cash rate reduction bond revenue | (62) | (40) |
| Other - net | (35) | 42 |
| Net changes in other working capital components | 462 | 292 |
| Net cash provided by operating activities | 715 | 830 |
| Cash Flows From Investing Activities: | | |
| Net proceeds from sale of generating plants | 454 | -- |
| Expenditures for property, plant and equipment | (194) | (184) |
| Investment in Chilquinta Energia | (420) | -- |
| Other | (156) | (177) |
| Net cash used in investing activities | (316) | (361) |
| Cash Flows From Financing Activities: | | |
| Common stock dividends | (187) | (230) |
| Sale of common stock | 2 | 28 |
| Repurchase of common stock | -- | (1) |
| Redemption of preferred stock | -- | (75) |
| Issuance of long-term debt | 189 | 75 |
| Payment on long-term debt | (128) | (376) |
| Decrease in short-term debt - net | (43) | (297) |
| Net cash used in financing activities | (167) | (876) |
| Increase (decrease) in Cash and Cash Equivalents | 232 | (407) |
| Cash and Cash Equivalents, January 1 | 424 | 814 |
| Cash and Cash Equivalents, June 30 | $ 656 | $ 407 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest payments (net of amounts capitalized) | $ 115 | $ 113 |
| Income tax payments (net of refunds) | $ 147 | $ 202 |
| Real estate investments acquired | $ 37 | $ 35 |
| Cash paid | (3) | (5) |
| Liabilities assumed | $ 34 | $ 30 |

See notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

This Quarterly Report on Form 10-Q is that of Sempra Energy (the Company), a California-based Fortune 500 energy services company.

Sempra Energy's principal subsidiaries are San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SoCalGas). The financial statements herein are the Consolidated Financial Statements of Sempra Energy and its subsidiaries.

The accompanying Consolidated Financial Statements have been prepared in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. In the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal recurring nature. Certain changes in classification have been made to prior presentations to conform to the current financial statement presentation.

The Company's significant accounting policies, as well as those of its subsidiaries, are described in the notes to Consolidated Financial Statements in the Company's 1998 Annual Report. The same accounting policies are followed for interim reporting purposes.

This Quarterly Report should be read in conjunction with the Company's 1998 Annual Report and its Quarterly Report on Form 10-Q for the three months ended March 31, 1999. The Company's 1998 Annual Report includes the Consolidated Financial Statements and notes thereto, and "Management's Discussion & Analysis of Financial Condition and Results of Operations."

SDG&E and SoCalGas have been accounting for the economic effects of regulation on all utility operations in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), as described in the notes to Consolidated Financial Statements in the Company's 1998 Annual Report. In conformity with generally accepted accounting principles for regulated enterprises and the policies of the California Public Utilities Commission (CPUC), SDG&E has ceased the application of SFAS No. 71 to its generation business, in accordance with the conclusion of the Financial Accounting Standards Board that the application of SFAS No. 71 should be discontinued when legislation is issued that determines that a portion of an entity's business will no longer be subject to cost-based regulation. The discontinuance of SFAS No. 71 did not result in a write-off of SDG&E's generation assets, since the CPUC approved the recovery of the stranded costs related to these assets by the distribution portion of its business. (See further discussion in Note 3.)

## 2. BUSINESS COMBINATIONS

### PE/Enova

On June 26, 1998 (pursuant to an October 1996 agreement) Enova, the parent corporation of San Diego Gas & Electric, and PE, the parent corporation of the Southern California Gas Company, completed a business combination in which the companies became subsidiaries of a new company named Sempra Energy. As a result of the combination, (i) each outstanding share of common stock of Enova was converted into one share of common stock of Sempra Energy, (ii) each outstanding share of common stock of PE was converted into 1.5038 shares of common stock of Sempra Energy and (iii) the preferred stock and/or preference stock of SDG&E, PE and SoCalGas remain outstanding. Additional information on the business combination is discussed in the Company's 1998 Annual Report.

### KN Energy

On February 22, 1999, Sempra Energy and KN Energy, Inc. (KN Energy) announced that their respective boards of directors had approved Sempra Energy's acquisition of KN Energy, subject to approval by the shareholders of both companies and by various federal and state regulatory agencies. On June 21, 1999, Sempra Energy and KN Energy announced that they had agreed to terminate the proposed acquisition.

Expenses incurred in connection with the above matters were $12.8 million, after tax, and $62 million, after tax, for the six-month periods ended June 30, 1999 and 1998, respectively, of which $12.3 million, after tax, and $61 million, after tax, respectively, occurred during the three months ended June 30, 1999 and 1998.

### Chilquinta Energia S.A.

On June 10, 1999, the international subsidiaries of Sempra Energy and

Public Service Enterprise Group (PSEG) announced the finalization of the joint purchase (on a 50/50 basis) of Chilquinta Energia S.A. (Energia) from parent company Chilquinta S.A. for $840 million. Sempra Energy and PSEG completed the acquisition of 90 percent of Energia and will tender for the remaining 10 percent later this year. Sempra Energy contributed cash of $260 million for the purchase of stock and refinanced $160 million of Energia's long-term debt outstanding. Sempra and PSEG have made an open market tender offer for up to 25% of the outstanding shares of Luz Del Sur in which the companies, through Energia, already own a minority stake. The offer is expected to close on September 9, 1999. The offer is not being made in the United States or to shareholders resident in the United States.

3. MATERIAL CONTINGENCIES

ELECTRIC INDUSTRY RESTRUCTURING -- CALIFORNIA PUBLIC UTILITIES COMMISSION

In September 1996, the State of California enacted a law restructuring California's electric utility industry (AB 1890). The legislation adopts the December 1995 CPUC policy decision that restructures the industry to stimulate competition and reduce rates.

Beginning on March 31, 1998, customers were given the opportunity to choose to continue to purchase their electricity from the local utility under regulated tariffs, to enter into contracts with other energy-service providers (direct access) or to buy their power from the independent Power Exchange (PX) that serves as a wholesale power pool allowing all energy producers to participate competitively. The PX obtains its power from qualifying facilities, from nuclear units and, lastly, from the lowest-bidding suppliers. The California investor-owned electric utilities (IOUs) are obligated to sell their power supply, including owned generation and purchased-power contracts, to the PX. The IOUs are also obligated to purchase from the PX the power that they distribute. SDG&E's obligation to bid into and purchase from the PX after the conclusion of the rate freeze continues during the interim post rate freeze period (discussed below). An Independent System Operator (ISO) schedules power transactions and access to the transmission system. The local utility continues to provide distribution service regardless of which energy source the customer chooses. Purchases from the PX/ISO are included in purchased-power expenses and PX/ISO power revenues have been netted therein on the Statements of Consolidated Income as presented. Revenues from the PX/ISO reflect sales at market prices of energy from SDG&E's power plants and from long-term purchased-power contracts to the PX/ISO commencing April 1, 1998.

As discussed in the notes to Consolidated Financial Statements contained in the Company's 1998 Annual Report, the IOUs have been given a reasonable opportunity to recover their stranded costs via a competition transition charge (CTC) to customers through December 31, 2001. In June 1999, SDG&E completed the recovery of its stranded costs, other than the above-market portion of qualifying facilities and other purchased-power contracts that were in effect at December 31, 1995. These costs will continue to be collected in rates. Recovery of the stranded costs were effected by, among other things, the sale of SDG&E's fossil power plants and combustion turbines. During the quarter ended June 30, 1999, these sales were completed for total net proceeds of $454 million. The South Bay Power Plant sale to the San Diego Unified Port District for $110 million was completed on April 23, 1999. Duke South Bay, a subsidiary of Duke Energy Power Services, will manage the plant for the Port District. The sale of Encina Power Plant and 17 combustion-turbine generators to Dynegy Inc. and NRG Energy Inc. for $356 million was completed on May 21, 1999. SDG&E will operate and maintain both facilities for the new owners for the next two years.

Stranded costs included the cost of the San Onofre Nuclear Generating Station (SONGS) as of December 31, 1995. SDG&E retains ownership of its 20-percent interest in SONGS. Subsequent SONGS costs are recoverable only from the sales of power produced therefrom, at rates previously fixed by the CPUC through December 31, 2002 and as determined by the market thereafter.

AB 1890 required a 10-percent reduction of residential and small commercial customers' rates beginning in January 1998, and provided for the issuance of rate-reduction bonds by an agency of the State of California to enable the IOUs to achieve this rate reduction. In December 1997, $658 million of rate-reduction bonds were issued on

SDG&E's behalf at an average interest rate of 6.26 percent. These bonds are being repaid over 10 years by SDG&E's residential and small commercial customers via a non-bypassable charge on their electric bills. In 1997, SDG&E formed a subsidiary, SDG&E Funding LLC, to facilitate the issuance of the bonds. In exchange for the bond proceeds, SDG&E sold to SDG&E Funding LLC all of its rights to revenue streams collected from such customers. Consequently, the transaction is structured to cause such revenue streams not to be the property of SDG&E nor to be available to satisfy any claims of SDG&E's creditors.

AB 1890 includes a rate freeze for all customers. Beginning in 1998, system-average rates were fixed at 9.43 cents per kwh. The rate freeze would have stayed in place until January 1, 2002, however, in connection with completion of SDG&E's stranded cost recovery (described above), SDG&E filed with the CPUC for an interim mechanism to deal with electric rates after the end of the rate freeze. SDG&E is requesting authority to reduce base rates (the portion of the rate that SDG&E controls) to all electric customers. If approved, base electric rates will decrease beyond the original 10-percent rate reduction described above. The portion of the electric rate representing the commodity cost is simply passed through to customers and will fluctuate with the price of electricity from the PX. Except for the interim protection mechanism described below, customers will no longer be protected from commodity price spikes.

In April 1999, SDG&E filed an all-party settlement (including energy service providers, the CPUC's Office of Ratepayer Advocates (ORA), and the Utility Consumers Action Network (UCAN)) detailing proposed implementation plans for lifting the rate freeze. Included in the settlement is an interim customer-protection mechanism for residential and small commercial customers that would temporarily cap rates between July 1999 and September 1999, regardless of how high the PX price moves during that period. Any resulting undercollection would be recovered through a balancing account mechanism for a period of up to nine months subsequent to September 30, 1999. A CPUC decision adopting the all-party settlement was issued in May 1999 and became effective July 1, 1999. The interim rate-freeze period runs until the CPUC issues its decision on the pending legal and policy issues of ending the rate freeze. This decision is expected in January 2000.

Thus far, electric-industry deregulation has been confined to generation. Transmission and distribution have remained subject to traditional cost-of-service regulation. However, the CPUC is exploring the possibility of opening up electric distribution to competition. During 1999, the CPUC will be conducting a rulemaking, one objective of which may be to develop a coordinated proposal for the state legislature regarding how various distribution competition issues should be addressed. The Company will actively participate in this effort.

ELECTRIC INDUSTRY RESTRUCTURING -- FEDERAL ENERGY REGULATORY COMMISSION

In October 1997, the Federal Energy Regulatory Commission (FERC) approved key elements of the California IOUs' restructuring proposal. This included the transfer by the IOUs of the operational control of their transmission facilities to the ISO, which is under FERC jurisdiction. The FERC also approved the establishment of the California PX to operate as an independent wholesale power pool. The IOUs pay to the PX an up-front restructuring charge (in four annual installments) and an administrative-usage charge for each megawatt-hour of volume transacted. SDG&E's share of the restructuring charge is approximately $10 million, which is being recovered as a transition cost. The IOUs have guaranteed $300 million of commercial loans to the ISO and PX for their development and initial start-up. SDG&E's share of the guarantee is $30 million.

NATURAL GAS INDUSTRY RESTRUCTURING

The natural gas industry experienced an initial phase of restructuring during the 1980s by deregulating natural gas sales to noncore customers. On January 21, 1998, the CPUC released a staff report initiating a project to assess the current market and regulatory framework for California's natural gas industry. The general goals of the plan are to consider reforms to the current regulatory framework emphasizing market-oriented policies benefiting California's natural gas consumers.

In August 1998, California enacted a law prohibiting the CPUC from enacting any natural gas industry restructuring decision for core customers prior to January 1, 2000; the CPUC continues to study the issue. During the implementation moratorium, the CPUC will hold hearings throughout the state and intends to give the legislature a draft ruling before adopting a final market-structure policy. SDG&E and SoCalGas will actively participate in this effort.

NUCLEAR INSURANCE

SDG&E and the co-owners of SONGS have purchased primary insurance of $200 million, the maximum amount available, for public-liability claims. An additional $9.5 billion of coverage is provided by the Nuclear Regulatory Commission Secondary Financial Protection Program and provides for loss sharing among utilities owning nuclear reactors if a costly accident occurs. SDG&E could be assessed up to $36 million in the event of a nuclear incident involving any of the licensed commercial reactors in the United States if the amount of the loss exceeds $200 million. In the event the public-liability limit stated above is insufficient, the Price-Anderson Act provides for Congress to enact further revenue-raising measures to pay claims which could include an additional assessment on all licensed reactor operators.

Insurance coverage is provided for up to $2.75 billion of property damage and decontamination liability. Coverage is also provided for the cost of replacement power, which includes indemnity payments for up to three years, after a waiting period of 17 weeks. Coverage is provided primarily through mutual insurance companies owned by utilities with nuclear facilities. If losses at any of the nuclear facilities covered by the risk-sharing arrangements were to exceed the accumulated funds available from these insurance programs, SDG&E could be assessed retrospective premium adjustments of up to $4.5 million.

CANADIAN NATURAL GAS

SDG&E has been involved in negotiations and litigation with four Canadian suppliers concerning contract terms and prices. SDG&E has settled with all of the suppliers. One of the four is delivering natural gas under the terms of the settlement agreement through 2003; the other three have ceased deliveries and the contracts were terminated. Although these contracts were intended to supply SDG&E to a level approximating the related committed long-term pipeline capacity, SDG&E intends to continue using the capacity in other ways, including the transport of replacement natural gas and the release of a portion of this capacity to third parties.

QUASI-REORGANIZATION

During 1993, PE completed a strategic plan to refocus on its natural gas utility and related businesses. The strategy included the divestiture of the Company's merchandising operations and all of its oil and gas exploration and production business. In connection with the divestitures, PE effected a quasi-reorganization for financial-reporting purposes, effective December 31, 1992. Certain of the liabilities established in connection with discontinued operations and the quasi-reorganization will be resolved in future years. Management believes the provisions previously established for these matters are adequate.

4. COMPREHENSIVE INCOME

In conformity with generally accepted accounting principles, the Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." Comprehensive income for the six-month periods ended June 30, 1999 and 1998 was equal to net income.

5. SEGMENT INFORMATION

The Company, primarily an energy-services company, has three separately managed reportable segments comprised of SDG&E, SoCalGas and Sempra Energy Trading (SET). The two utilities operate in essentially separate service territories under separate regulatory frameworks and rate structures set by the CPUC. As described in the notes to Consolidated Financial Statements in the Company's 1998 Annual Report, SDG&E provides electric and natural gas service to San Diego and southern Orange counties. SoCalGas is a natural gas distribution utility, serving customers throughout most of southern California and part of central California. SET is based in Stamford, Connecticut and is engaged in the wholesale trading and marketing of natural gas, power and petroleum in the U.S. and in other countries. The accounting policies of the segments are the same as those described in the notes to Consolidated Financial Statements in the Company's 1998 Annual Report, and segment performance is evaluated by management based on reported net income. Intersegment transactions generally are recorded the same as sales or transactions with third parties. Utility transactions are primarily based on rates set by the CPUC and FERC. There were no significant changes in segment assets for the six months ended June 30, 1999, except as described in Note 3 regarding the sale of the Company's power plants. Segment information of SoCalGas and SDG&E is provided in the Quarterly Report on Form 10-Q for the six-month period ended June 30, 1999 of each of these companies.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (Dollars in millions) | 1999 | 1998 | 1999 | 1998 |
| Operating Revenues: | | | | |
| San Diego Gas & Electric | $ 740 | $ 569 | $1,201 | $1,175 |
| Southern California Gas | 624 | 578 | 1,231 | 1,242 |
| Sempra Energy Trading | 109 | 24 | 182 | 33 |
| Intersegment revenues | (9) | (15) | (23) | (26) |
| All other | 53 | 65 | 117 | 147 |
| Total | $1,517 | $1,221 | $2,708 | $2,571 |
| Net Income: | | | | |
| San Diego Gas & Electric* | $ 46 | $ 25 | $ 99 | $ 74 |
| Southern California Gas* | 46 | 19 | 93 | 65 |
| Sempra Energy Trading | 3 | 2 | 4 | (6) |
| All other | (13) | (15) | (15) | (15) |
| Total | $ 82 | $ 31 | $ 181 | $ 118 |

* after preferred dividends

## 6. SEMPRA ENERGY HOLDINGS

On May 5, 1999, Sempra Energy and its wholly owned subsidiary, Sempra Energy Holdings (Holdings), jointly filed a shelf registration of common stock, preferred stock and debt securities of Sempra Energy; debt securities of Holdings; and certain other securities to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933. Any debt securities issued by Holdings will be guaranteed by Sempra Energy. Summarized financial information of Holdings is provided below. Additional financial information of Holdings is provided in Sempra Energy's Current Report on Form 8-K filed May 5, 1999.

(Dollars in millions)

| | At June 30, 1999 | At December 31, 1998 |
|---|---|---|
| Current assets | $1,368 | $1,470 |
| Non-current assets | 1,103 | 544 |
| Current liabilities | 1,327 | 1,452 |
| Non-current liabilities | 310 | 140 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Operating revenues | $157 | $124 | $271 | $235 |
| Operating expenses | 157 | 160 | 286 | 291 |
| Net income (loss) | 3 | (27) | (7) | (38) |

ITEM 2.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements contained in this Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's 1998 Annual Report.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words "estimates," "believes," "expects," "anticipates," "plans" and "intends," variations of such words, and similar expressions are intended to identify forward-looking statements that involve risks and uncertainties which could cause actual results to differ materially from those anticipated.

These statements are necessarily based upon various assumptions involving judgments with respect to the future including, among others, local, regional, national and international economic, competitive, political and regulatory conditions and developments; technological developments; capital market conditions; inflation rates; interest rates; energy markets; weather conditions; business, regulatory or legal decisions; the pace of deregulation of retail natural gas and electricity industries; the timing and success of business development efforts; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of the Company. Accordingly, while the Company believes that the assumptions are reasonable, there can be no assurance that they will approximate actual experience, or that the expectations will be realized. Readers are urged to review and consider carefully the risks, uncertainties and other factors which affect the Company's business described in this quarterly report and other reports filed by the Company from time to time with the Securities and Exchange Commission. Readers are cautioned not to put undue reliance on any forward-looking statements. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

BUSINESS COMBINATIONS

See Note 2 of the notes to Consolidated Financial Statements regarding the PE/Enova business combination, the acquisition of Chilquinta Energia S.A., and the agreement to terminate the KN Energy acquisition.

CAPITAL RESOURCES AND LIQUIDITY

The Company's utility operations continue to be a major source of liquidity. In addition, working capital requirements are met through the issuance of short-term and long-term debt. These capital resources are expected to remain available. Major changes in cash flows not described elsewhere are described below. Cash and cash equivalents at June 30, 1999 are available for investment in energy-related domestic and international projects, utility plant, the retirement of debt, and other corporate purposes.

CASH FLOWS FROM OPERATING ACTIVITIES

The decrease in cash flows from operations is primarily due to transactions related to the recovery of stranded electric costs and an increase in overcollections on regulatory balancing accounts.

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures for property, plant and equipment are estimated to be $390 million for the full year 1999 and will be financed primarily by internally generated funds and will largely represent investment in utility operations. Construction, investment and financing programs are continuously reviewed and revised in response to changes in competition, customer growth, inflation, customer rates, the cost of capital, and environmental and regulatory requirements.

Included in cash flows from investing activities are the proceeds from SDG&E's plant sales (see additional discussion in Note 3 of the notes to Consolidated Financial Statements).

In June 1999, Sempra Energy and Public Service Enterprise Group (PSEG) finalized the joint purchase (on a 50/50 basis) of Chilquinta

Energia S.A. This is described in Note 2 of the notes to Consolidated Financial Statements.

In January 1998, PE and Enova jointly acquired CES/Way International, Inc. for a total of $79 million. CES/Way provides energy-efficiency services, including energy audits, engineering design, project management, construction, financing and contract maintenance.

In March 1998, PE increased its existing investment in two Argentine natural gas utility holding companies from 12.5 percent to 21.5 percent by purchasing an additional interest for $40 million.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities decreased primarily due to greater long-term and short-term debt repayments and the repurchase of preferred stock in 1998. In addition, long-term debt was issued during 1999 related to the purchase of Chilquinta Energia S.A. (see Note 2 for additional information).

Dividends paid on common stock were $187 million during the six-month period ended June 30, 1999, compared to $230 million during the same period in 1998. The decrease in 1999 is the result of the 1998 period including three quarterly dividends on common stock of the predecessor companies.

Dividends currently are paid quarterly to shareholders. The payment of future dividends is within the discretion of the board of directors.

On February 2, 1998, SoCalGas redeemed all outstanding shares of its 7-3/4% Series Preferred Stock for a total cost of $75 million, including unpaid dividends.

RESULTS OF OPERATIONS

The increases in net income and net income per share for the three-month and six-month periods ended June 30, 1999 are primarily due to lower business combination costs in 1999.

Income tax expense decreased for the three-month period ended June 30, 1999, compared to the corresponding period in 1998, due to the contribution to a local government agency of the land related to one of the sold generating plants, partially offset by the increase in income before taxes. (The reduced income tax expense was fully offset by increased depreciation expense related to stranded costs.) Income tax expense increased for the six-month period ended June 30, 1999, compared to the corresponding period in 1998, due to the increase in income before taxes, partially offset by the land contribution. The land contribution also resulted in a significant decrease in the Company's effective income tax rate.

UTILITY OPERATIONS

Utility natural gas revenues increased 8 percent for the three-month period ended June 30, 1999 compared to the same period in 1998. This is compared to a decrease of one percent for the six-month period ended June 30, 1999. The increase for the second quarter was primarily due to higher sales to residential customers due to colder weather and customer growth, and higher sales to commercial and industrial customers. The decrease for the six-month period was primarily due to a decrease in the average cost of natural gas and lower utility electric generating sales, partially offset by the increase in sales.

Electric revenues increased 36 percent and 3 percent for the three-month and six-month periods ended June 30, 1999 primarily due to the sale by SDG&E of both its fossil-fueled power plants, partially offset by the January 1998 application to stranded cost recovery of the $130 million balance in the Interim Transition Cost Balancing Account (ITCBA), which had been transferred from the then-discontinued ECAC and ERAM balancing accounts at December 31, 1997. In addition, there was a decrease in revenues as a result of a decrease in sales to other utilities, due to the start-up of the PX. The PX is described further under "Factors Influencing Future Performance".

Cost of natural gas distributed increased 46 percent and 9 percent for the three-month and six-month periods ended June 30, 1999. The increases were primarily due to the higher sales partially offset during the six months by lower prices. Under the current regulatory framework, changes in revenue resulting from changes in core market volumes and the cost of natural gas do not affect net income.

As discussed in Note 3, PX/ISO power revenues have been netted against purchased-power expenses, including purchases from the PX/ISO. The PX/ISO began operations in April 1998.

Depreciation and amortization increased 69 percent and 11 percent for the three-month and six-month periods ended June 30, 1999, compared to the same period in 1998. The increases were due to the accelerated recovery of generation assets partially offset by the January 1998 application of the ITCBA to stranded cost recovery as discussed above.

The tables below summarize the components of natural gas and electric volumes and revenues by customer class for the six months ended June 30, 1999 and 1998.

Gas Sales, Transportation & Exchange
(Dollars in millions, volumes in billion cubic feet)

| | Gas Sales | | Transportation & Exchange | | Total | |
|---|---|---|---|---|---|---|
| | Throughput | Revenue | Throughput | Revenue | Throughput | Revenue |
| 1999: | | | | | | |
| Residential | 187 | $1,190 | 1 | $ 4 | 188 | $1,194 |
| Commercial and industrial | 60 | 301 | 161 | 131 | 221 | 432 |
| Utility electric generation* | 18 | 7 | 49 | 20 | 67 | 27 |
| Wholesale | -- | -- | 15 | 4 | 15 | 4 |
| | 265 | $1,498 | 226 | $159 | 491 | 1,657 |
| Balancing accounts and other | | | | | | (253) |
| Total | | | | | | $1,404 |
| 1998: | | | | | | |
| Residential | 175 | $1,316 | 2 | $ 7 | 177 | $1,323 |
| Commercial and industrial | 54 | 318 | 167 | 145 | 221 | 463 |
| Utility electric generation* | 21 | 5 | 40 | 20 | 61 | 25 |
| Wholesale | -- | -- | 15 | 4 | 15 | 4 |
| | 250 | $1,639 | 224 | $176 | 474 | 1,815 |
| Balancing accounts and other | | | | | | (400) |
| Total | | | | | | $1,415 |

* The portion representing SDG&E's sales for electric generation includes margin only.

Electric Distribution
(Dollars in millions, volumes in millions of Kwhrs)

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | Volumes | Revenue | Volumes | Revenue |
| Residential | 3,134 | $ 315 | 3,011 | $ 305 |
| Commercial | 2,994 | 271 | 3,249 | 288 |
| Industrial | 968 | 69 | 1,683 | 112 |
| Direct access | 1,403 | 48 | 93 | 6 |
| Street and highway lighting | 38 | 3 | 43 | 4 |
| Off-system sales | 52 | 1 | 639 | 13 |
| | 8,589 | 707 | 8,718 | 728 |
| Balancing and other | | 299 | | 245 |
| Total | 8,589 | $1,006 | 8,718 | $ 973 |

## YEAR 2000 ISSUES

Most companies are affected by the inability of many automated systems and applications to process the year 2000 and beyond. The Year 2000 issues are the result of computer programs and other automated processes using two digits to identify a year, rather than four digits. Any of the Company's computer programs that include date-sensitive software may recognize a date using "00" as representing the year 1900, instead of the year 2000, or "01" as 1901, etc., which could lead to system malfunctions. The Year 2000 issue impacts both Information Technology ("IT") systems and also non-IT systems, including systems incorporating embedded processors. To address this problem, in 1996, both Pacific Enterprises and Enova Corporation established company-wide Year 2000 programs. These programs have now been consolidated into Sempra Energy's overall Year 2000 readiness effort. Sempra Energy has established a central Year 2000 Program Office, which reports to the Company's Chief Information Technology Officer and reports periodically to the audit committee of the Board of Directors.

### The Company's State of Readiness

Sempra Energy has identified all significant IT and non-IT systems (including embedded systems) that might not be Year 2000 ready and categorizing them in the following areas: IT applications, computer hardware and software infrastructure, telecommunications, embedded systems, and third parties. The Company evaluated its exposure in all of these areas. These systems and applications are being tracked and measured through four key phases: inventory, assessment, remediation/testing, and Year 2000 readiness. The Company has prioritized so that, when possible, critical systems are being assessed and modified/replaced first. Critical systems are those applications and systems, including embedded processor technology, which, if not appropriately remediated, may have a significant impact on energy delivery, revenue collection or the safety of personnel, customers or facilities. The Company's Year 2000 testing effort includes functional testing of Year 2000 dates and validating that changes have not altered existing functionality. The Company uses an independent, internal review process to verify that the appropriate testing has occurred.

The Company's Year 2000 project is currently on schedule, with critical energy delivery systems for both SoCalGas and SDG&E Year 2000 Ready as of June 30, 1999. The Company defines "Year 2000 Ready" as suitable for continued use into the year 2000 with no significant operational problems.

Sempra Energy's current schedule for Year 2000 testing and readiness for non-critical systems is to be completed by the fourth quarter of 1999. In certain cases, this schedule is dependent upon the efforts of third parties, such as suppliers (including energy producers) and customers. Accordingly, delays by third parties may cause the Company's schedule to change. In addition, a continued readiness management process has been implemented to monitor and review the progress of Year 2000 readiness of the Company's systems.

### The Costs to Address the Company's Year 2000 Issues

Sempra Energy's budget for the Year 2000 program is $48 million, of which $43 million has been spent. As the Company continues to assess its systems and as the remediation and testing efforts progress, cost estimates may change. The Company's Year 2000 readiness effort is being funded entirely by operating cash flows.

### The Risks of the Company's Year 2000 Issues

Based upon its current assessment and testing of the Year 2000 issue, the Company believes the reasonably likely worst case Year 2000 scenarios to have the following impacts upon Sempra Energy and its operations. With respect to the Company's ability to provide energy to its domestic utility customers, the Company believes that the reasonably likely worst case scenario is for small, localized interruptions of utility service which are restored in a time frame that is within normal service levels. With respect to services that are essential to Sempra Energy's operations, such as customer service, business operations, supplies and emergency response capabilities, the scenario is for minor disruptions of essential services with rapid recovery and all essential information and processes ultimately recovered.

To assist in preparing for and mitigating these possible scenarios, Sempra Energy is a member of several industry-wide efforts established to deal with Year 2000 problems affecting embedded systems and equipment used by the nation's natural gas and electric power companies. Under these efforts, participating utilities are working together to assess specific vendors' system problems and to test plans. These assessments will be shared by the industry as a whole to facilitate Year 2000 problem solving.

A portion of this risk is due to the various Year 2000 Ready schedules of critical third party suppliers and customers. The Company continues to contact its critical suppliers and customers to survey their Year 2000 remediation programs. While risks related to the lack of Year 2000 readiness by third parties could materially and adversely affect the Company's business, results of operations and financial condition, the Company expects its Year 2000 readiness efforts to reduce significantly the Company's level of uncertainty about the impact of third party Year 2000 issues on both its IT systems and its non-IT systems.

The Company's Contingency Plans

The Company's contingency plans for Year-2000-related interruptions have been completed and were submitted to the CPUC on July 1, 1999. These plans will continue to be revised and improved during the remainder of 1999. The contingency plans include emergency backup and recovery procedures, replacing electronic applications with manual processes, and identification of alternate suppliers along with increasing inventory levels. In addition, the following key contingency actions will be taken.

- -- Only critical system changes will be implemented during December 1999 and January 2000.
- -- An hour-by-hour plan will be developed to cover key contingency actions.
- -- On-site staffing will be in place at key operational and administrative locations.
- -- Designated standby staff will be on-call with thirty-minute availability.
- -- Emergency Operations Centers will be activated on December 31, 1999.
- -- Walk-through drills will be held during the fourth quarter of 1999.

Due to the speculative and uncertain nature of contingency planning, there can be no assurances that such plans actually will be sufficient to reduce the risk of material impacts on the Company's operations due to Year 2000 issues.

FACTORS INFLUENCING FUTURE PERFORMANCE

The Company's performance in the near future will primarily depend on the results of SDG&E and SoCalGas. Because of the ratemaking and regulatory process, electric and natural gas industry restructuring, and the changing energy marketplace, there are several factors that will influence the Company's future financial performance. These factors are discussed in this section and in "Other Operations" and "International Operations" below.

Chilquinta Energia S.A. Acquisition

See Note 2 of the notes to Consolidated Financial Statements and "International Operations" below for a discussion of the acquisition of Chilquinta Energia S.A.

Industry Restructuring

See discussion of industry restructuring in Note 3 of the notes to Consolidated Financial Statements.

Electric-Generation Assets and Electric Rates

Note 3 of the notes to Consolidated Financial Statements describes regulatory and legislative actions that affect SDG&E's electric rates, and the related sale of its fossil plants and recovery of the cost of all SDG&E generation-related assets.

Performance-Based Regulation (PBR)

To promote efficient operations and improved productivity and to move away from reasonableness reviews and disallowances, the CPUC has been directing utilities to use PBR. PBR has replaced the general rate case and certain other regulatory proceedings for both SoCalGas and SDG&E. Under PBR, regulators require future income potential to be tied to achieving or exceeding specific performance and productivity goals, as well as cost reductions, rather than relying solely on expanding utility rate base in a market where a utility already has a highly developed infrastructure.

SoCalGas' PBR is in effect through December 31, 2002; however, the CPUC decision allows for the possibility that changes to the PBR mechanism could be adopted in a decision to be issued in SoCalGas' 1999 Biennial Cost Allocation Proceeding (BCAP) application which is anticipated to become effective at year-end 1999. SDG&E continues to participate in PBR for its electric distribution and natural gas businesses. In December 1998, the CPUC approved SDG&E's Cost of Service proceeding, resulting in an authorized revenue increase of $12 million (an electric distribution increase of $18 million and a natural gas decrease of $6 million). New rates became effective on January 1, 1999. In January 1999, various proposed and alternate decisions were released on the PBR design issues of SDG&E's distribution PBR application. The proposed decision released by the CPUC's Administrative Law Judge recommended, among other things, a revenue-per-customer indexing mechanism rather than the rate-indexing mechanism proposed by SDG&E and much tighter earnings sharing bands than previously in effect for SDG&E. On May 13, 1999 the CPUC adopted a decision incorporating the rate-indexing mechanism proposed by SDG&E, but also approved the tighter sharing bands. The decision also adopted an all-party settlement on various performance incentives, allowing SDG&E the opportunity to accrue up to $14.5 million annually in performance rewards or penalties. Certain intervenors are requesting a rehearing of the rate-indexing mechanism.

Cost of Capital

Under PBR, annual Cost of Capital proceedings were replaced by an automatic adjustment mechanism if changes in certain indices exceed established tolerances. For 1999, SoCalGas is authorized to earn a rate of return on common equity (ROE) of 11.6 percent and a 9.49 percent return on rate base (ROR), unchanged from 1998. For SDG&E, electric-industry restructuring is changing the method of calculating the utility's annual cost of capital. SDG&E's May 1998 application to the CPUC for unbundled rates established new, separate rates of return for SDG&E's electric distribution and natural gas businesses. The application proposed a 12.00 percent ROE, which would produce an overall ROR of 9.33 percent.  A CPUC decision in June 1999 granted SDG&E an ROE of 10.6 percent (overall ROR of 8.75 percent). This resulted in annual revenue requirement reductions of $14.6 million and $4.8 million for electric distribution and SDG&E gas sales, respectively, effective July 1, 1999. SDG&E filed an Application for Rehearing of this decision in July 1999, requesting that the ROE be increased to 10.8 percent after correcting computational errors in the original decision.

Biennial Cost Allocation Proceeding (BCAP)

The BCAP determines how a utility's costs are allocated among various customer classes (residential, commercial, industrial, etc.). The utilities filed the 1999 BCAP application in October 1998, with hearings held during the first half of 1999. At the conclusion of hearings, a joint BCAP recommendation was reached proposing, among other things, an overall natural gas rate reduction of $229 million for SoCalGas and $11 million for SDG&E. A CPUC decision is expected in early 2000.

OTHER OPERATIONS

Sempra Energy Solutions (Solutions), formed in 1997 as a joint venture of PE and Enova, incorporates several existing unregulated businesses from each of PE and Enova. It is pursuing a variety of opportunities, including buying and selling natural gas for large users, integrated energy-management services targeted at large governmental and commercial facilities, and consumer market products and services. CES/Way International, Inc. (CES/Way), which was acquired by Solutions in January 1998, provides energy-efficiency services including energy audits, engineering design, project management, construction, financing and contract maintenance.

Solutions' net losses were $11 million and $19 million for the three and six-month periods ended June 30, 1999, compared to net losses of $18 million and $27 million for the same periods in 1998. The losses are primarily due to start-up costs.

Sempra Energy Trading Corp. (SET), a leading natural-gas power marketing firm headquartered in Stamford, Connecticut, was jointly acquired by PE and Enova on December 31, 1997. For the three and six-month periods ended June 30, 1999, SET recorded after-tax income of $3 million and $4 million, compared to net income of $2 million and a net loss of $6 million for the same periods in 1998. The increase in income was primarily due to greater penetration of all customer segments resulting in higher volumes traded in 1999. In addition, new European crude oil and natural gas trading contributed to 1999 earnings.

INTERNATIONAL OPERATIONS

On June 10, 1999 Sempra Energy announced the finalization of the acquisition of a 50-percent interest in Chilquinta Energia S.A., as described in Note 2 of the notes to Consolidated Financial Statements.

Results for international operations for the three and six-month periods ended June 30, 1999 were net income of $1 million and a net loss of $1 million, respectively, compared to net losses of $1 million and $4 million for the same periods in 1998. The losses are primarily due to expenses related to the evaluation of international opportunities. The increase in net income during the three months ended June 30, 1999 is primarily due to increased sales in Argentina, as a result of colder weather, and lower operating costs.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except for the matters referred to in the Company's 1998 Annual Report or referred to elsewhere in this Quarterly Report on Form 10-Q for the six months ended June 30, 1999, neither the Company nor any of its affiliates is a party to, nor is its property the subject of, any material pending legal proceedings other than routine litigation incidental to its businesses.

ITEM 4. SUBMISSION OF MATTERS TO VOTE

Sempra Energy's 16-member board of directors is divided into three classes whose terms are staggered so that the term of one class expires at each Annual Meeting of Shareholders. At the annual meeting on May 4, 1999, the shareholders of Sempra Energy elected five directors for a three-year term expiring in 2002. The name of each nominee and the number of shares voted for or withheld were as follows:

| Nominees | Votes For | Votes Withheld |
|---|---|---|
| Hyla H. Bertea | 203,205,326 | 8,544,424 |
| Ann L. Burr | 203,353,651 | 8,396,099 |
| Richard A. Collato | 203,347,298 | 8,402,452 |
| Daniel W. Derbes | 203,341,955 | 8,407,795 |
| Ignacio E. Lozano, Jr. | 202,892,606 | 8,857,144 |

The results of the voting on the following additional items, all of which were approved, were as follows:

(a) A proposal to approve a Non-Employee Directors' Stock Plan.

| | |
|---|---|
| In Favor | 147,829,901 |
| Opposed | 26,325,417 |
| Abstained | 5,762,468 |
| Broker Non-Vote | 31,831,964 |

(b) A proposal to approve an Executive Incentive Plan for executive officers.

| | |
|---|---|
| In Favor | 182,329,656 |
| Opposed | 23,468,861 |
| Abstained | 5,951,233 |

(c) A proposal to approve a Long Term Incentive Plan for officers and other key employees of Sempra Energy and its subsidiaries.

| | |
|---|---|
| In Favor | 96,458,669 |
| Opposed | 77,611,943 |
| Abstained | 5,847,175 |
| Broker Non-Vote | 31,831,963 |

Additional information concerning the election of the board of directors and the other proposals is contained in Sempra Energy's Notice of 1999 Annual Meeting of Shareholders and Proxy Statement.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 12 - Computation of ratios

12.1 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

Exhibit 27 - Financial Data Schedules

27.1 Financial Data Schedule for the six months ended June 30, 1999.

(b) Reports on Form 8-K

A Current Report on Form 8-K filed April 2, 1999 announced the early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, with respect to the proposed acquisition of KN Energy.

A Current Report on Form 8-K filed April 14, 1999 announced the approval by Chilquinta S.A.'s board of directors of the offer by Sempra Energy and Public Service Enterprise Group to acquire, on a 50-50 basis, Chilquinta S.A.'s subsidiary, Chilquinta Energia S.A.

A Current Report on Form 8-K filed May 5, 1999 announced that Sempra Energy Holdings would be filing a shelf registration of debt securities to be offered pursuant to Rule 415 under the Securities Act of 1933 and provided certain financial information for Sempra Energy Holdings.

A Current Report on Form 8-K filed May 21, 1999 announced the completion of the sales of SDG&E's Encina Power Plant, 17 combustion turbines, and South Bay Power Plant.

A Current Report on Form 8-K filed June 10, 1999 announced the finalization of the joint purchase by Sempra Energy and Public Service Enterprise Group of Chilquinta Energia S.A.

A Current Report on Form 8-K filed June 21, 1999 announced the termination of the merger agreement between Sempra Energy and KN Energy.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly cause this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEMPRA ENERGY
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(Registrant)

Date: August 12, 1999 By: /s/ F. H. Ault

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F. H. Ault
Vice President and Controller

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION
EXTRACTED FROM THE STATEMENT OF CONSOLIDATED INCOME, BALANCE SHEET,
AND CASH FLOWS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO
SUCH FINANCIAL STATEMENTS.
0001032208
SEMPRA ENERGY
1,000,000

6-MOS
DEC-31-1999
JUN-30-1999
PER-BOOK
5,031
1,809
2,612
1,086
168
10,706
1,840
0
1,069
2,909
25
179
2,889
0
0
0
334
0
16
0
4,354
10,706
2,680
64
2,351
2,415
265
28
293
112
181
0
181
187
0
715
0.76
0.76

PREFERRED DIVIDEND OF SUBSIDIARY INCLUDED IN OTHER OPERATING
EXPENSE

EXHIBIT 12.1

SEMPRA ENERGY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Dollars in millions)

| | 1994 | 1995 | 1996 | 1997 | 1998 | Six Months Ended June 30, 1999 |
|---|---|---|---|---|---|---|
| Fixed Charges and Preferred Stock Dividends: | | | | | | |
| Interest | $ 237 | $ 227 | $ 205 | $ 209 | $ 210 | $ 114 |
| Interest Portion of Annual Rentals | 35 | 32 | 28 | 25 | 20 | 9 |
| Preferred dividends of subsidiaries (1) | 53 | 50 | 37 | 31 | 18 | 8 |
| Total Fixed Charges and Preferred Stock Dividends For Purpose of Ratio | $ 325 | $ 309 | $ 270 | $ 265 | $ 248 | $ 131 |
| Earnings: | | | | | | |
| Pretax income from continuing operations | $ 634 | $ 665 | $ 727 | $ 733 | $ 432 | $ 245 |
| Add: | | | | | | |
| Fixed charges (from above) | 325 | 309 | 270 | 265 | 248 | 131 |
| Less: Fixed charges capitalized | 4 | 6 | 5 | 3 | 3 | 1 |
| Fixed charges net of capitalized charges | 321 | 303 | 265 | 262 | 245 | 130 |
| Total Earnings for Purpose of Ratio | $ 955 | $ 968 | $ 992 | $ 995 | $ 677 | $ 375 |
| Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends | 2.94 | 3.13 | 3.67 | 3.75 | 2.73 | 2.86 |

(1) In computing this ratio, "Preferred dividends of subsidiaries" represents the before-tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.